

**CITY OF EVERETT**  
**Snohomish County, Washington**  
**January 1, 1994 Through December 31, 1994**

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**Schedule Of Findings**

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1. The City Should Spend Hotel/Motel Tax Moneys For Items Allowed By State Law

During our audit of the city's 1994 expenditures we found several disbursements of hotel/motel tax money for purposes not allowed by state law.

- a. The city paid the Salty Sea Days organization \$30,549 for items related to their annual festival; including a tent, fencing, a stage, chairs, booths, equipment, security staff, and portable buildings. State law allows hotel/motel tax moneys to be used for publications or advertisements regarding this festival in order to promote tourism; however, it does not allow the city to use these moneys to fund related costs of the festival.
- b. The 1994 contract to grant hotel/motel tax money to the Everett Chamber of Commerce included the following items in the scope of services provided which are not allowed by state law:
  - (1) To administer or assist in the development, planning, organization, coordination and promotion of community events designed to enhance the city's image for tourists.
  - (2) Coordinate and conduct community receptions, testimonials, events, and host visiting dignitaries as requested by the city.
  - (3) Provide professional marketing and development services to attract the location, relocation, retail and entertainment business in Everett.

We also found that money paid to the Everett Chamber of Commerce, and the Snohomish County Visitors Center was not supported by expenditure records from these recipients until requested as part of the audit. The 1994 grant contracts to the Everett Chamber of Commerce and the Snohomish County Visitor's Center totaled \$68,324 and \$12,122, respectively. Expense reports provided by the chamber for 1994 showed at least \$3,189 worth of costs not eligible for hotel/motel tax funds under state law. We were not able to determine a fair portion of administrative costs which were unallowable for funding with this tax.

- c. Finally, we found that \$55,230 from hotel/motel tax was paid to the chamber between January 1, 1995, and May 6, 1995, with no written agreement between the city and chamber for use of these moneys.

RCW 67.28.210 says in part:

Such taxes shall be levied only for the purpose of paying all or any part of the cost of acquisition, construction, or operating of stadium facilities, convention center facilities, performing arts center facilities, and/or visual arts center facilities or to pay or secure the payment of all or any portion of general obligation bonds or revenue bonds issued for such purpose or purposes under this chapter, or to pay for advertising, publicizing, or otherwise distributing information for the purpose of attracting visitors and encouraging tourist expansion when a county or city has imposed such tax for such purposes . . . PROVIDED FURTHER, That any city or county may use the proceeds of such taxes for the refurbishing and operation of a steam railway for tourism promotion purposes . . . . (Emphasis ours.)

Using this particular source of money as described above is contrary to the Legislature's intent of how this tax is supposed to benefit the citizens.

We recommend the city's General Fund reimburse their Hotel/Motel Tax Fund at least \$33,738, comprised of ineligible payments to Salty Sea Days of \$30,549 and the Everett Chamber of Commerce for \$3,189.

We also recommend that city management further review 1994 and 1995 expenditure records from the Everett Chamber of Commerce, as well as 1995 expenditure records from the Salty Sea Day's organization. The city's General Fund should reimburse the Hotel/Motel Tax Fund for any items which were allowed by contract but were not legal uses of hotel/motel tax moneys.

We further recommend that the city execute contracts with recipients of this tax prior to payment for services rendered.

Finally, we recommend that city management continue to review documentation from agencies who receive hotel motel tax money to ensure contract services were rendered and were for a purpose allowed by state law.

2. The City Should Improve Controls Over Cash Receipts

Treasurer's Department

During our audit of the treasurer's department we found the following internal control weaknesses, many of which were noted in our previous audit report.

- a. Checks awaiting encoding and deposit are left in an unattended basket.

We recommend that the treasurer provide adequate security for checks awaiting encoding and deposit with the bank.

- b. Employees' personal checks were cashed by the treasurer through calendar year 1994. This practice was stopped in January 1995. However, when personal checks are cashed, balancing receipts to bank deposit by mode of payment (cash/check) becomes difficult and sometimes impossible, leaving the city unable to ensure its receipts are deposited intact.

We recommend that the treasurer maintain current improvements of internal control by not cashing employee checks.

- c. The treasurer receives payments from city utility customers in the daily mail. These payments are placed in an envelope box and sent to the utility department via interdepartmental mail. This money is not sealed in a box or envelope, nor is there any record of the number of envelopes being transferred. Without these security measures, utility receipts are susceptible to loss, and if that occurs, management may not be able to identify the responsible party.

We recommend that the treasurer better secure the utility envelopes sent via interdepartmental mail and include a transmittal of the number of documents being transferred.

- d. One person opens the mail and enters the data into the cash receipt system. This same person often prepares the daily deposit.

When one person performs this task alone, there is no accountability for how much money from the day's mail should be deposited with the bank.

We recommend that two people open mail together, especially in the treasurer's department where payment by mail is a common occurrence. Both should sign a log or calculator tape of the total received in the mail each day, identifying whether cash or checks were received, and submit the money to the cashier for immediate receipt. This documentation should be retained to support the cashier's report.

- e. During 1994 the treasurer began "decentralizing" the duties of cash depositing and data entry of receipts at some of the city departments. This was in response to problems with securing money deposited with the treasurer by other city departments. While the treasurer has made progress to better control money received, the following problems still exist:

(1) Although the treasury maintains a log of receipt books issued to departments, these receipts were not being tracked to ensure all are used or accounted for until May 1995.

(2) In several instances deposits by the utility department did not reconcile to the computer system receipt summaries by mode of payment (cash/check). Without such a reconciliation, the treasurer cannot ensure that all money received by this department was deposited with the bank intact.

Without the treasurer adequately monitoring receipts and deposits by outlying departments, management cannot be assured those deposits are complete and accurate. In addition, public funds could be misappropriated without being detected in a timely manner.

We recommend that the treasurer continue to track the use of receipts by all departments. The treasurer should also ensure department receipts agree with the deposit in total and by mode of payment, and research any differences to determine if money is missing. To supplement the review for completeness of deposits by outlying departments, we also recommend the treasurer perform routine analytical review of these deposits.

#### Parks Department

As mentioned in our previous audit report, the parks department still does not track the use of their manual cash receipts, nor do they have a locking cash drawer.

We again recommend that the parks department track the use of their manual receipts to ensure all correspond to bank deposits. This should be done in conjunction with the treasurer's efforts to track receipt usage which began in May of this year. We also recommend that management install a cash drawer that adequately protects the money received.

#### Library ) Main Branch

We also found several weaknesses in control over cash receipts at the library's main branch which continue to exist since our last audit.

- a. Collection of cash from the copy machine is only done by one person. When only one person collects cash from this machine, it is not possible for management to determine how much should be collected and receipted.

We recommend two people collect cash from the copy machine, to establish accountability for this money immediately upon removal from the machine.

- b. We also noted weaknesses in control over cash receipts similar to those found in the treasurer's department, regarding opening of mail.

We recommend the same improvements to control be made in these areas in the library, as we recommended for the treasurer's department.

- c. Finally, we noted that library staff deposit receipts with the treasurer only twice a week.

We recommend the library staff deposit moneys received with the treasurer daily.

3. Controls Over Utility Billing Process Need Improvement

a. Segregate Duties Of Cash Handling, Data Entry And Adjustments To Customer Accounts

During our audit we learned that one person receives cash at the front counter in the Utility Department Annex, may receive payments in the mail, initiates and enters customer account adjustments, enters new customers and customer changes, and until late 1994, was responsible for preparation of the daily bank deposit, including balancing to the receipts. Depending on staff availability, this person would prepare the deposit and perform the daily balancing of receipts to deposit until change in procedures in April of this year. The duty of cash receipting should be separate from all other duties listed above to ensure that all money received is accounted for and deposited.

We recommend that the utilities division separate cash receipting from any duties that may be incompatible with good internal control.

b. Reconcile Receipts By Mode Of Payment

We also found that the Utility Department did not reconcile its daily deposit to computer system receipt summaries by mode of payment (cash/check). This was also mentioned in our finding on cash receipt controls in the treasury. Without such a reconciliation, management cannot be assured that all money received by Utilities is deposited with the bank intact. Utilities management assured us that such a reconciliation has been taking place since April of this year.

As a result of the control problems outlined above, we found two separate instances in June and July of 1994 where cash deposited was \$150 less than receipted, and in turn was offset by an extra \$150 in checks deposited which were never receipted. These differences were not discovered by management. In the first of these two instances, a city employee cashed a personal check for \$150. In the second instance, \$150 of traveler's checks were cashed for an individual that did not appear to be either an employee or utility customer of the city.

Management has assured us that the utility department no longer cashes personal checks.

Neither of the examples cited above resulted in fraud or a loss of funds to the city; however, without adequately reconciling receipts to deposits, management cannot ensure that all money received is deposited with the bank intact.

We recommend that utility department management agree each day's deposit with receipt summaries in total and by mode of payment.

We also recommend management continue to discourage cashing personal checks or traveler's checks.

c. Perform Review Procedures Over Customer Data Changes

In the customer and billing database, the service/location, customer data, and billing rate files are not protected and may be changed. Furthermore, an edit list is not available for supervisory review. Without protection of these files or review of changes, unauthorized changes could occur and not be detected in a timely manner.

We recommend that management either restrict access to certain critical customer/billing files or create edit lists of changes for supervisory review.

d. Meter Read Adjustments Should Be Reviewed And Approved

For water customers whose usage is metered, city staff must at times adjust meter readings in the computer billing system. Although an edit list of these changes is available, there is no evidence they are approved. Without review and approval, errors or unauthorized adjustments could occur and not be detected in a timely manner. Management has informed us that these adjustments are now being approved in advance as of April of this year.

We recommend that management continue with their recent improvements to control meter adjustments. We also recommend that a supervisor review the Meter Read Edit List, to ensure all such adjustments were authorized.

e. Improve Supervisory Review of Account Adjustments

We also found that utility customer account adjustments may be initiated by any person in the Utility Department Annex. During 1994 the edit list of Account Adjustments often showed no evidence of supervisory review. Without review and approval, errors or unauthorized billing changes could occur and not be detected in a timely manner. Management has informed us that these adjustments are now being approved in advance, as of April of this year

We recommend that management continue with their recent improvements to control account adjustments. We also recommend that all Account Adjustment Edit Lists be reviewed by a supervisor to ensure all such adjustments were authorized.

4. The City Should Clarify The Terms Of Its Union Contracts

We reviewed payments to retiring city fire fighters for accrued vacation and found that during calendar year 1994 through March 1995, the city paid for vacation hours accrued at the time of retirement, which appeared to be in excess of limits stated in the union contract.

The collective bargaining agreement between the City of Everett and Everett Firefighters, Local No. 46, for the period January 1, 1994, through December 31, 1995, says in Article 15 that:

No individual shall be allowed to accrue (carry over) in excess of 192 hours of vacation unless under special circumstances the mayor authorizes additional accrual. The entire vacation must be accrued.

This section of the agreement goes on to say:

At the end of an employee's career, basic vacation will be redeemable for cash for all basic vacation hours accrued.

We saw no evidence in the city's records to indicate that the mayor had approved vacation accumulations in excess of contract limits.

We found that the current limit on redemption of vacation hours accrued has been in existence since January 1992. Previous agreements allowed for higher limits on such redemptions.

Discussions with management indicated that their intent was to buy back vacation at levels allowed prior to 1992. This intention was confirmed to us through signed affidavits from the parties involved in the 1992 contract negotiations.

This results in vacation accruing and being redeemed upon retirement, in excess of stated contract limits.

We recommend that future fire fighters union agreements clearly state the intent of both parties as to limits for vacation accrual and buy back.

We also recommend that city management obtain written authorization from the mayor for any leave accumulations in excess of the limits set by contract.

5. The City Should Improve Controls At The Municipal Court

a. Cash Receipts/Accounts Receivable

At Everett Municipal Court, cashiers can make adjustments to accounts receivable amounts for cases on file in the District Court Information System (DISCIS). This includes the ability to write off receivables entirely, without a supervisor's approval. When the duties for cash receipting and posting adjustments to receivables are not separate, cashiers are not accountable to the court for any particular amount received on a defendant's account. Because of this, the court administrator must review adjustments to receivables and other transactions on the DISCIS "audit reports."

As of January 3, 1994, all DISCIS courts had the capability to run "audit reports" for review by court management. These reports include transactions and information for: Accounts Receivable Adjustments, Non-Cash Credits, Adjusted Receipts, Deleted Cases, Restitution Adjustments, Overpayment Activity, Accounts Payable, and Restitution Out of Balance information.

We could find no evidence that the former court administrator was printing or reviewing these reports during 1994. The current court administrator supplied evidence she reviewed these reports for January and February 1995, and maintains that she continued that review up to the current time, but has not documented that review.

We recommend the court administrator continue to print and review these reports daily, and retain them with evidence of the review.

b. Mail Opening Procedures

We found that one person opens the mail alone, and no log is kept of these payments received. We also found that payments received in the mail are not immediately receipted using the DISCIS system. This includes payments from individuals, the court's collection agency, and the Snohomish County Correction Center.

We recommend that two people open mail together, especially in an operation such as the court where payment by mail is a common occurrence. Both should sign a log or calculator tape of the total received in the mail each day, identifying whether cash or checks were received, and submit the money to the cashier for immediate posting. This documentation should be retained to support the cashier's report.

c. Staff Responsibilities

We reviewed the court staff's job descriptions as given by the Court Administrator, and found that any employee may fill in as cashier, either during normal business hours or when assigned to night court. Cashiering represents both a duty any staff member may perform, and a level of access on the DISCIS software system. However, several employees hold responsibilities that are not consistent with cashiering.

Any employee who enters citations or case dispositions should not receipt moneys for the court. Those who enter citations onto the DISCIS system establish accountability for the money due the court. Employees who enter



dispositions record what the judge has ordered a defendant to pay after their court appearance. In both cases, such employees establish the exact amount a cashier would be accountable for to close out a case.

We recommend that the court segregate cashing duties from those incompatible duties described above.

d. Trust Account

We were unable to reconcile the balance in the court's trust account to the detailed listing of cash in trust by defendant. We found that as of May 31, 1995, \$28,686 of this balance could not be identified through a specific case or court action. While the court has achieved some success in identifying money in trust since the last audit, court management still has some work to do in this area.

We recommend that the court administrator identify all defendants who have deposited cash bail in the court trust account. Any amounts held in bail inappropriately should be refunded, applied to fines, or remitted to the State as unclaimed property.

We further recommend that the court administrator continue to reconcile the trust fund from the check book balance to the Trust Account Summary Report monthly. This reconciliation should be documented.

e. Time Payment Agreements

During our audit we found that the court is not following up on all delinquent receivables from defendants who signed agreements to make payments on their fines (time pay agreements). The lack of follow up relates only to those defendants whose citations required mandatory court appearances, resulting in fines which were supposed to be paid over time.

We recommend that the court review the status of all time pay accounts monthly. Defendants whose accounts become delinquent should be notified and turned over to the court's collection agency.

6. The City Should Clarify Its Agreement With The Everett Performing Arts Corporation (EPA) For The Use Of Endowment Fund Donations

The current agreement between the city and the EPA to operate the city's community theater is unclear as to how Endowment Fund donations will be used. The terms of the current agreement may not represent the intentions of those who donated to the Endowment Fund. The question at hand is whether this money was intended to be spent strictly for the community theater or to also promote other cultural events throughout the city.

During our audit of the city's disbursements, we found that in June of 1994, management transferred approximately \$172,000 in private donations to the EPA's Endowment Fund. We later learned that the EPA solicited these donations, pursuant to their agreement with the city to operate the city's community theater. The city held money from these donations for the EPA, until the corporation was granted its tax exempt status under the Internal Revenue Code. The EPA collected donations for their Endowment Fund after that time.

Endowment donations were collected after the EPA informed the public through brochures about their funding needs. The Endowment Fund was mentioned specifically in these brochures, stating that money in this fund would be used for operating needs of the Everett Community Theater. In essence, the EPA is holding this Endowment Fund money in trust.

This trust relationship is defined in *State ex rel. Wirt V. Superior Court*, 10 Wn.2d 362, 116 P.2d 752 (1941), and states:

A trust is the holding of property subject to a duty of employing it or applying its proceeds according to directions given by the person from whom it was derived.

The city's agreement with EPA, dated February 24, 1993, mentions use of donations in two places, and gives two potential definitions for allowable use.

Section 3.4 states in part:

The Corporation may undertake fund raising activities to benefit the Community Theater.

Section 3.8 states:

All funds expended by the Corporation shall relate directly to the promotion, operation, and/or use of the Community Theater or promotion of cultural events at other Everett area cultural facilities. All net proceeds of operations shall be maintained by the Corporation's Board of Directors and may be placed in an endowment or other restricted funds . . . The Corporation may raise additional funds for said endowment.

Lack of a clear understanding between the city and the EPA as to how Endowment Fund donations will be spent increases the likelihood that these moneys will not be used in accordance with donors' wishes.

We recommend that the city and the Everett Performing Arts Corporation modify their agreement to clearly state the allowable uses of Endowment Fund donations. Prior to such action, we also recommend these parties ascertain the intentions of their donors, to determine where the limits should be placed on use of this money.